

**1 PRINCIPAL ACCOUNTING POLICIES**

The accounts have been prepared under the historical cost convention except that investment properties and investments are stated at fair value, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

Certain presentational changes have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised). The adoption of these revised standards does not have any material effect on the accounts.

**(a) Basis of consolidation**

- (i) The Group accounts include the accounts of the Company and its subsidiaries made up to 31 December. All significant intercompany transactions and balances within the Group are eliminated on consolidation.
- (ii) Subsidiaries are those entities in which the Group controls more than half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors or to cast majority of votes at the meetings of the board of directors.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

- (iii) Results of subsidiaries acquired during the year are included in the Group accounts from their respective dates of acquisition. Results of subsidiaries disposed of during the year are included up to their respective dates of disposal.
- (iv) The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

# NOTES TO THE ACCOUNTS

As at 31 December 2002

## 1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (b) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill on acquisition (net of accumulated amortisation).

### (c) Fixed assets

#### (i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their long term investment potential, any rental income being negotiated at arm's length.

Investment properties are revalued annually by independent professional valuers and stated at their open market value at the balance sheet date. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Where such a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of an investment property, any revaluation reserve held in respect of the property is released to the profit and loss account.

Investment properties are not depreciated except where the unexpired term of the lease is twenty years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

#### (ii) *Other fixed assets*

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the cost of these assets on a straight line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Leasehold Improvements	20%
Office equipment, furniture and fixtures	15%
Computer software	20%
Computer equipment	33%
Motor vehicles	20%

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### 1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (d) Properties held for development

Properties held for development are stated at cost which includes land cost, development expenditure, professional fees, capitalised interest and other expenses incurred incidental to the development less any accumulated impairment losses.

#### (e) Impairment and gain or loss on sale of fixed assets or properties held for development

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties held for development and fixed assets other than investment properties are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of properties held for development and any fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (f) Properties held for sale

Properties held for sale are included as current assets and are stated at the lower of cost and net realisable value. Cost includes land cost, development expenditure, professional fees, capitalised interest and other expenses incurred at the development phase. Net realisable value is the estimated price at which a property can be realised less related expenses.

#### (g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

# NOTES TO THE ACCOUNTS

As at 31 December 2002

## 1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (h) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1 January 2001 is amortised using the straight line method over its estimated useful life of 20 years. Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves.

Where an indication of impairment exists, the carrying amount of goodwill, including the goodwill that was previously written off against reserves, is assessed and written down immediately to its recoverable amount.

### (i) Borrowing costs

Borrowing costs incurred on assets under active development that take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of such assets at the Group's weighted average cost of borrowing for the year. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (j) Revenue recognition

- (i) Revenues and profits arising from the disposal of properties held for sale are recognised on the execution of legally binding contracts of sale.
- (ii) Revenue from letting the Group's portfolio of investment properties is recognised on a straight line basis over the lease term.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Property management revenue is recognised when the services are rendered.
- (v) Dividend income is recognised when the right to receive payment is established.

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**1 PRINCIPAL ACCOUNTING POLICIES** *(continued)***(k) Investments****(i) Non-trading investments**

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the non-trading investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired any relevant loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairment are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

**(ii) Trading investments**

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

**(l) Deferred taxation**

Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the accounts. The tax effect of timing differences, computed under the liability method, is recognised in the accounts to the extent that it is probable a liability or an asset will crystallise in the foreseeable future.

# NOTES TO THE ACCOUNTS

As at 31 December 2002

## 1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in operating results.

The balance sheets of overseas subsidiaries and associated companies expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences arising are taken directly to the exchange reserve.

### (n) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) *Bonus plans*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) *Retirement benefits*

The Group contributes to a defined contribution provident fund scheme for its employees. The Group's contributions under the scheme are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any employers' contributions relating to unvested benefits forfeited by employees who leave the Group are used to reduce the Group's ongoing contributions otherwise payable.

#### (iv) *Share options*

The nominal income received from the grantees as consideration for the grant of share options to them is recognised as income upon acceptance of the grant by the grantee. No employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of proceeds received.

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (o) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts.

#### (q) Related parties

Related parties are individuals and companies, including subsidiary, jointly controlled and associated companies, where the individual, company or group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

#### (r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, properties, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude taxation. Capital expenditure represents additions to fixed assets and property held for development.

In respect of geographical segment reporting, turnover, segment results, total assets and capital expenditure are based on the country in which the operations are carried out or the assets are located.

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in property investment, property trading and providing property management services. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Rental income from investment properties	110,654	127,137
Income from property management and related services	8,915	10,835
Proceeds from sales of properties and property interests	33,876	95,030
	<u>153,445</u>	<u>233,002</u>
Other revenues		
Rental income net of outgoings on properties held for sale	1,133	(4,034)
Interest income from		
– banks	534	3,321
– others	2,290	3
Penalty income from early termination of leases	545	161
	<u>4,502</u>	<u>(549)</u>
Total revenues	<u><u>157,947</u></u>	<u><u>232,453</u></u>

#### (a) Primary reporting format – business segments

The Group is organised into four main business segments:

Property investment

Property trading

Property management and related services

Operation of driver training centres and tunnel operation and management

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

#### (a) Primary reporting format – business segments *(continued)*

There are no sales or other transactions between the business segments.

	Property investment 2002 HK\$'000	Property trading 2002 HK\$'000	Property management and related services 2002 HK\$'000	Operation of driver training centres and tunnel operation and management 2002 HK\$'000	Group 2002 HK\$'000
Turnover	110,654	33,876	8,915	—	153,445
Segment results	83,212	(21,043)	5,203	(12,517)	54,855
Unallocated income					1,648
Finance costs					(31,785)
Operating profit					24,718
Share of results of an associated company				21,228	21,228
Goodwill amortisation				(14,080)	(14,080)
Profit before taxation					31,866
Taxation					(9,426)
Profit for the year					22,440
Segment assets	1,836,227	124,782	7,048	—	1,968,057
Unallocated assets					5,371
Interest in an associated company				727,487	727,487
Total assets					2,700,915
Segment liabilities	856,819	21,179	15,926	—	893,924
Unallocated liabilities					4,126
Total liabilities					898,050
Capital expenditure	9,544	373	968	—	10,885
Depreciation	—	—	366	—	366
Deficit arising on revaluation of investment properties	22,004	—	—	—	22,004
Provision for impairment loss on property held for development	—	7,373	—	—	7,373
Write down of properties held for sale	—	14,000	—	—	14,000
Amortisation of goodwill on acquisition of an associated company	—	—	—	14,080	14,080
Loss on deemed disposal of interest in an associated company	—	—	—	12,517	12,517

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

#### (a) Primary reporting format – business segments *(continued)*

	Property investment 2001 HK\$'000	Property trading 2001 HK\$'000	Property management and related services 2001 HK\$'000	Operation of driver training centres and tunnel operation and management 2001 HK\$'000	Group 2001 HK\$'000
Turnover	127,137	95,030	10,835	—	233,002
Segment results	92,168	(32,989)	6,819	—	65,998
Unallocated costs					(167)
Finance costs					(55,302)
Operating profit					10,529
Share of results of associated companies		15,526		23,585	39,111
Goodwill amortisation				(11,043)	(11,043)
Profit before taxation					38,597
Taxation					(5,467)
Profit for the year					33,130
Segment assets	1,943,193	198,487	6,051	—	2,147,731
Unallocated assets					12,810
Interest in an associated company				631,442	631,442
Total assets					2,791,983
Segment liabilities	933,256	26,628	20,194	—	980,078
Unallocated liabilities					2,831
Total liabilities					982,909
Capital expenditure	2,588	359	1,017	—	3,964
Depreciation	—	—	259	—	259
Deficit arising on revaluation of investment properties	26,128	—	—	—	26,128
Provision for impairment loss on property held for development	—	5,359	—	—	5,359
Write down of properties held for sale	—	15,308	—	—	15,308
Amortisation of goodwill on acquisition of an associated company	—	—	—	11,043	11,043

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## NOTES TO THE ACCOUNTS

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### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

#### (b) Secondary reporting format – geographical segments

The Group's four main business segments operate in Hong Kong and Mainland China.

There are no sales between the geographical segments.

	Turnover	Segment	Total	Capital
	2002	results	assets	expenditure
	HK\$'000	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	119,569	55,658	1,908,704	4,785
Mainland China	33,876	(803)	59,353	6,100
	<u>153,445</u>	<u>54,855</u>	<u>1,968,057</u>	<u>10,885</u>
Unallocated assets			5,371	
Interest in an associated company			<u>727,487</u>	
Total assets			<u>2,700,915</u>	
	Turnover	Segment	Total	Capital
	2001	results	assets	expenditure
	HK\$'000	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	137,972	98,987	2,040,573	3,964
Mainland China	95,030	(32,989)	107,158	—
	<u>233,002</u>	<u>65,998</u>	<u>2,147,731</u>	<u>3,964</u>
Unallocated assets			12,810	
Interest in an associated company			<u>631,442</u>	
Total assets			<u>2,791,983</u>	

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## NOTES TO THE ACCOUNTS

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### 3 FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts		
– wholly repayable within five years	12,869	22,473
– not wholly repayable within five years	17,983	29,168
Loan arrangement fees	933	3,661
	<u>31,785</u>	<u>55,302</u>

### 4 OPERATING PROFIT

The operating profit is stated after charging and crediting the following:

	2002 HK\$'000	2001 HK\$'000
<b>Charging:</b>		
Auditors' remuneration		
– Provision for current year	624	701
– Under provision in previous year	25	165
Loss on disposal of property interests	2,986	970
Impairment loss on non-trading investments	3,542	278
Loss on deemed disposal of interest in an associated company	12,517	—
Provision for bad debts	—	398
Depreciation of fixed assets	366	259
Loss on disposal of fixed assets	16	—
Outgoings in respect of investment properties	3,583	6,210
Staff costs (Note 9)	<u>9,626</u>	<u>8,566</u>
<b>Crediting:</b>		
Recovery of bad debts previously written off	—	203
Write-back of impairment loss on non-trading investments	—	111
	<u>—</u>	<u>314</u>

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## NOTES TO THE ACCOUNTS

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### 5 TAXATION

(a) The taxation charge in the consolidated profit and loss account comprises:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Company and its subsidiaries		
Hong Kong profits tax		
Provision for current year	(6,704)	(3,845)
Over provision in prior years	158	644
Share of taxation attributable to an associated company	<u>(2,880)</u>	<u>(2,266)</u>
	<u><u>(9,426)</u></u>	<u><u>(5,467)</u></u>

(b) Hong Kong profits tax is provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

(c) An analysis of the full potential unprovided deferred tax assets/(liabilities) of the Group as at the year end is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accelerated depreciation allowances	(94)	(98)
Tax losses	<u>3,155</u>	<u>3,717</u>
	<u><u>3,061</u></u>	<u><u>3,619</u></u>

The revaluation of investment properties and non-trading investments does not constitute a timing difference and accordingly there are no deferred tax implications.

### 6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK\$9,775,000 (2001: HK\$34,013,000) which is dealt with in the Company's accounts.

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## NOTES TO THE ACCOUNTS

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### 7 DIVIDENDS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Final, proposed, of HK1.5 cents (2001: HK2.0 cents) per share	<u>11,957</u>	<u>15,943</u>

At a meeting held on 28 March 2003, the directors proposed a final dividend of HK1.5¢ per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of distributable reserves for the year ending 31 December 2003.

### 8 EARNINGS PER SHARE

Earnings per share is calculated based on the profit attributable to shareholders of HK\$22,440,000 (2001: HK\$33,130,000) and on 797,157,415 shares (2001: 797,157,415 shares) in issue during the year.

The share options of the Company do not result in a dilution effect on the earnings per share in respect of the years ended 31 December 2002 and 2001.

### 9 STAFF COSTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Wages, salaries and allowances	6,634	7,027
Discretionary bonuses	2,720	1,220
Pension costs – defined contribution plan	<u>272</u>	<u>319</u>
	<u>9,626</u>	<u>8,566</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 10 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

The emoluments of the directors and the five highest paid employees have been included in staff costs disclosed in note 9 to the accounts.

#### (a) Directors' emoluments

Directors' emoluments for the year were as follows:

	2002 HK\$'000	2001 HK\$'000
As directors – fees	700	600
For management		
– basic salaries, housing allowances, other allowances and benefits in kind	1,810	1,690
Discretionary bonuses	2,200	800
Pension contributions	87	78
	<u>4,797</u>	<u>3,168</u>

Directors' fees and other emoluments disclosed above include HK\$700,000 (2001: HK\$600,000) paid and payable to independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
HK\$	2002	2001
Up to 1,000,000	5	2
2,500,001 – 3,000,000	1	1
	<u>1</u>	<u>1</u>

None of the directors waived any emoluments in respect of the years ended 31 December 2002 and 2001.

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 10 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

(continued)

#### (b) Five highest paid employees' emoluments

Among the five highest paid employees, one (2001: one) is an executive director whose remuneration is disclosed above. Details of the emoluments of the remaining four (2001: four) highest paid employees are as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,498	2,476
Discretionary bonuses	355	330
Pension contributions	115	114
	<u>2,968</u>	<u>2,920</u>

The emoluments of these employees fell within the following bands:

	Number of individuals	
HK\$	2002	2001
500,001 – 1,000,000	3	3
1,000,001 – 1,500,000	1	1
	<u>4</u>	<u>4</u>

### 11 RETIREMENT BENEFIT COSTS

(a) Contributions to a mandatory provident fund scheme (the "MPF Scheme") by the Group and employees are calculated at 5% of the employees' monthly salary respectively. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), employers and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the "mandatory contributions"). The excess of the Group's contributions to the MPF Scheme over the mandatory contributions are voluntary contributions.

The mandatory contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. The voluntary contributions paid by the Group will be vested in the employees by stages from the third to the tenth year of employment. Any unvested benefits of employee terminating employment are forfeited in accordance with the terms of the MPF Scheme and can be utilised by the Group to reduce future contributions.

(b) In 2001 and 2002, there were no forfeited contributions utilised by the Group under the MPF Scheme.

(c) Contributions totalling HK\$8,000 (2001: HK\$319,000) were payable to the MPF Scheme at the year end and are included in other payables and accrued charges.

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## NOTES TO THE ACCOUNTS

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### 12 FIXED ASSETS – GROUP

	Investment properties in Hong Kong HK\$'000	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Computer software HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation</b>							
At 1 January 2002	1,855,790	—	32	453	369	923	1,857,567
Additions	9,544	743	201	—	24	—	10,512
Deficit on revaluation	(22,004)	—	—	—	—	—	(22,004)
Disposals	(50,000)	—	(21)	—	(35)	—	(50,056)
At 31 December 2002	<u>1,793,330</u>	<u>743</u>	<u>212</u>	<u>453</u>	<u>358</u>	<u>923</u>	<u>1,796,019</u>
<b>Accumulated depreciation</b>							
At 1 January 2002	—	—	5	88	263	123	479
Charge for the year	—	25	7	90	59	185	366
Disposals	—	—	(5)	—	(35)	—	(40)
At 31 December 2002	<u>—</u>	<u>25</u>	<u>7</u>	<u>178</u>	<u>287</u>	<u>308</u>	<u>805</u>
<b>Net Book value</b>							
At 31 December 2002	<u>1,793,330</u>	<u>718</u>	<u>205</u>	<u>275</u>	<u>71</u>	<u>615</u>	<u>1,795,214</u>
At 31 December 2001	<u>1,855,790</u>	<u>—</u>	<u>27</u>	<u>365</u>	<u>106</u>	<u>800</u>	<u>1,857,088</u>

- (a) The investment properties are held under medium term leases of between 10 to 50 years, except for certain properties with a carrying value of HK\$911,280,000 (2001: HK\$914,580,000) which are held under long leases of over 50 years.

The investment properties were revalued by B.I. Appraisals Limited, professional valuers, on an open market value basis as at 31 December 2002 and 2001.

The revaluation deficit on investment properties has been charged to the profit and loss account.

- (b) Certain investment properties have been mortgaged to banks to secure loan facilities granted to the Group (*Note 20(b)*).
- (c) Fixed assets other than investment properties are stated at cost less accumulated depreciation.

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## NOTES TO THE ACCOUNTS

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### 13 INVESTMENTS

#### (a) Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1,465,569	1,465,569
Amounts due from subsidiaries	853,144	869,093
	<u>2,318,713</u>	<u>2,334,662</u>
Less: Provisions	<u>(1,075,404)</u>	<u>(1,085,104)</u>
	<u>1,243,309</u>	<u>1,249,558</u>

Details of the principal subsidiaries of the Company are set out in note 26 to the accounts.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

#### (b) An associated company

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	360,990	356,948
Goodwill on acquisition of an associated company less amortisation ( <i>Note i</i> )	246,657	271,821
Dividend receivable	2,840	2,673
Convertible note ( <i>Note ii</i> )	117,000	—
	<u>727,487</u>	<u>631,442</u>
Listed shares, at cost	<u>627,274</u>	<u>627,274</u>
Market value of listed shares	<u>186,061</u>	<u>168,400</u>

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Y. T. Realty Group Limited

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 13 INVESTMENTS (continued)

#### (b) An associated company (continued)

Particulars of the associated company at 31 December are set out below:

Name of company	Place of incorporation	Description of shares held	Equity interest held indirectly	
			2002	2001
The Cross-Harbour (Holdings) Limited	Hong Kong	56,812,492 ordinary shares of HK\$1 each	27.32%	27.62%

The Cross-Harbour (Holdings) Limited ("Cross-Harbour") is an investment holding company, incorporated and listed in Hong Kong, with its subsidiaries engaged in the operation of driver training centres and the business of tunnel operation and management in Hong Kong.

Notes:

- (i) The purchased goodwill is amortised on a straight line basis over its estimated useful life of 20 years from the date of acquisition. Movement of goodwill is shown as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1 January	271,821	286,682
Negative goodwill on scrip dividends received	(3,305)	(3,818)
Amortisation	(14,080)	(11,043)
Unamortised goodwill written off on deemed disposal of interest in the associated company	(7,779)	—
At 31 December	<u>246,657</u>	<u>271,821</u>

- (ii) On 11 June 2002, the Group invested HK\$117 million to purchase the convertible note (the "Note") issued by Cross-Harbour which is interest-bearing at the rate of 3.5% per annum with a maturity date of 11 June 2005. The Note carries a right of conversion into new ordinary shares of the associated company at exercise prices of HK\$3.5, HK\$3.7 and HK\$3.9 per share during the years ending 11 June 2003, 11 June 2004 and 11 June 2005 respectively.

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 13 INVESTMENTS (continued)

#### (b) An associated company (continued)

The financial information of the associated company whose results and financial position are material in the context of the Group's accounts, is summarised below.

	Year ended 31 December 2002 HK\$'000	Year ended 31 December 2001 HK\$'000
Consolidated profit and loss account		
Turnover	271,284	291,385
Profit before taxation	94,865	93,726
Profit after taxation	<u>84,268</u>	<u>81,296</u>
Profit attributable to the Group	<u>18,348</u>	<u>21,319</u>
	At 31 December 2002 HK\$'000	At 31 December 2001 HK\$'000
Consolidated balance sheet		
Non-current assets	1,381,970	1,265,689
Current assets	345,490	207,147
Current liabilities	<u>(148,558)</u>	<u>(146,071)</u>
Net current assets	<u>196,932</u>	<u>61,076</u>
Total assets less current liabilities	<u>1,578,902</u>	<u>1,326,765</u>
Long term liabilities	<u>(218,300)</u>	<u>(4,400)</u>
Shareholders' funds	<u>1,321,407</u>	<u>1,292,461</u>
Net assets attributable to the Group	<u>360,990</u>	<u>356,948</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 14 PROPERTY HELD FOR DEVELOPMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1 January	55,000	60,000
Development expenditure incurred	373	359
Provision for impairment loss	(7,373)	(5,359)
At 31 December	<u>48,000</u>	<u>55,000</u>

Property held for development represents a development project which is situated in Hong Kong and held under a medium term lease of between 10 and 50 years.

### 15 PROPERTIES HELD FOR SALE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong		
At cost	1,988	1,988
At net realisable value	<u>15,000</u>	<u>29,000</u>
	16,988	30,988
Mainland China		
At net realisable value	—	29,000
	<u>16,988</u>	<u>59,988</u>

### 16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note)	35,118	79,560	—	—
Prepayments and deposits	8,528	7,222	74	88
Other receivables	<u>32,808</u>	<u>3,653</u>	—	—
	<u>76,454</u>	<u>90,435</u>	<u>74</u>	<u>88</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 16 TRADE AND OTHER RECEIVABLES *(continued)*

Note: At 31 December, the ageing analysis of the trade receivables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Not yet due	9,000	53,600
Within 30 days	17,422	22,237
31 - 60 days	1,541	1,749
61 - 90 days	779	953
Over 90 days	6,376	1,021
	<u>35,118</u>	<u>79,560</u>

Included in trade receivables are HK\$32,100,000 (2001: HK\$75,500,000) which represent proceeds receivable from property buyers and their settlement is based on payment schedule of the corresponding sales and purchase agreements.

The remaining balance of trade receivables is primarily rental receivable from tenants which is normally due on the first day of the month.

### 17 TRADE AND OTHER PAYABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables <i>(Note)</i>	2,106	939	—	—
Rental and management fee deposits	23,120	33,366	—	—
Other payables and accruals	<u>25,698</u>	<u>31,773</u>	<u>468</u>	<u>508</u>
	<u>50,924</u>	<u>66,078</u>	<u>468</u>	<u>508</u>

Note: At 31 December, the ageing analysis of the trade payables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 30 days	1,146	505
31 - 60 days	795	233
61 - 90 days	165	201
	<u>2,106</u>	<u>939</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 18 SHARE CAPITAL

#### (a) Shares

	Ordinary shares of HK\$0.10 each	
	Number	HK\$'000
Authorised		
At 31 December 2002 and 2001	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid		
At 31 December 2002 and 2001	<u>797,157,415</u>	<u>79,716</u>

#### (b) Share options

At a Special General Meeting of the Company held on 22 December 1993, the Share Option Plan was approved and adopted. At 31 December 2002, there were 2,400,000 (2001: 2,590,000) options outstanding which are exercisable in stages from the date of grant and no option will be exercisable later than 10 years after the date of grant. The amount payable on acceptance of the option is minimal. No options have been granted, exercised or expired during the year, except that 190,000 options were cancelled during the year (2001: Nil).

Terms of share options outstanding at the balance sheet date were as follows:

Exercisable period	Exercise price HK\$	Number of options		Vested number of options	
		2002	2001	2002	2001
<i>Directors</i>					
3 April 2000 to 2 April 2010	0.5860	2,000,000	2,000,000	1,200,000	800,000
<i>Other employees</i>					
4 January 1995 to 3 July 2004	1.8288	—	100,000	—	100,000
16 January 1997 to 15 July 2006	0.9488	100,000	190,000	100,000	190,000
3 April 2000 to 2 April 2010	0.5860	300,000	300,000	180,000	120,000
		<u>2,400,000</u>	<u>2,590,000</u>	<u>1,480,000</u>	<u>1,210,000</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 19 RESERVES

#### Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	94,535	1,350	1,345,068	(271,440)	1,169,513
2001 final dividend paid	—	—	(15,943)	—	(15,943)
Profit for the year	—	—	—	9,775	9,775
	<u>94,535</u>	<u>1,350</u>	<u>1,329,125</u>	<u>(261,665)</u>	<u>1,163,345</u>
Representing:					
Final dividend proposed					11,957
Reserves					<u>1,151,388</u>
					<u>1,163,345</u>
At 1 January 2001	94,535	1,350	1,345,068	(289,510)	1,151,443
2000 final dividend paid	—	—	—	(15,943)	(15,943)
Profit for the year	—	—	—	34,013	34,013
	<u>94,535</u>	<u>1,350</u>	<u>1,345,068</u>	<u>(271,440)</u>	<u>1,169,513</u>
Representing:					
Final dividend proposed					15,943
Reserves					<u>1,153,570</u>
					<u>1,169,513</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 20 BANK LOANS

(a) Bank loans are repayable as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	174,000	271,000
In the second year	186,000	176,500
In the third to fifth years	167,000	105,500
After the fifth year	316,000	361,000
	<u>843,000</u>	<u>914,000</u>
Amounts classified under current liabilities	<u>(174,000)</u>	<u>(271,000)</u>
Amounts classified under non-current liabilities	<u>669,000</u>	<u>643,000</u>

(b) Pledge of assets

The bank loans are secured by mortgages on certain investment properties and properties held for sale with an aggregate carrying value of HK\$1,785,000,000 (2001: HK\$1,882,000,000) and the assignment of rental income from certain of the properties.

In addition, the Company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans.

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	31,866	38,597
Deficit arising on revaluation of investment properties	22,004	26,128
Realisation of exchange reserve related to an associated company upon disposal	—	(1,389)
Provision for impairment loss on properties held for development	7,373	5,359
Loss on disposal of fixed assets	16	—
(Gain)/loss on disposal of a subsidiary	(4,901)	1,270
Gain on disposal of non-trading investment	(5,190)	—
Interest income	(2,824)	(3,324)
Interest expense	30,852	51,641
Depreciation	366	259
Impairment loss on non-trading investments	3,542	167
Loss on deemed disposal of interest in an associated company	12,517	—
Amortisation of goodwill on acquisition of an associated company	14,080	11,043
Share of results of associated companies	(21,228)	(39,111)
Operating profit before working capital changes	<u>88,473</u>	<u>90,640</u>
Decrease in properties held for sale	43,000	115,300
Decrease/(increase) in trade and other receivables, and amount due from investee company	18,272	(78,051)
Decrease in trade and other payables	<u>(11,614)</u>	<u>(1,014)</u>
Net cash inflow generated from operations	<u><u>138,131</u></u>	<u><u>126,875</u></u>

#### (b) Analysis of changes in financing during the year

	Bank loans	
	2002 HK\$'000	2001 HK\$'000
At 1 January	914,000	868,029
Net cash (outflow)/inflow from financing	(32,500)	283,971
Disposal of a subsidiary	<u>(38,500)</u>	<u>(238,000)</u>
At 31 December	<u><u>843,000</u></u>	<u><u>914,000</u></u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (c) Disposal of a subsidiary

	2002	2001
	HK\$'000	HK\$'000
Net assets disposal of:		
Investment properties	50,000	498,000
Trade and other receivables	708	8,196
Tax recoverable	—	383
Bank loans	(38,500)	(238,000)
Trade and other payables	(2,969)	(11,722)
	<u>9,239</u>	<u>256,857</u>
Gain/(loss) on disposal	<u>4,901</u>	<u>(1,270)</u>
	<u>14,140</u>	<u>255,587</u>
Satisfied by:		
Cash consideration (net of expenses)	<u>14,140</u>	<u>255,587</u>

#### (d) Major non-cash transaction

The Group disposed of a non-trade investment of HK\$1,000,000 in exchange for investment properties amounting to HK\$6,100,000.

### 22 CONTINGENT LIABILITIES

- (a) A subsidiary has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK\$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming the subsidiary for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss and expense. The case is pending arbitration. As at 31 December 2002, provisions of HK\$7.4 million (2001: HK\$7.4 million) have been made for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received.

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 22 CONTINGENT LIABILITIES (continued)

- (b) A subsidiary executed guarantees to secure banking facility made available to an investee company and certain property buyers of the investee company in respect of mortgage loans. In 2002, the entire investment in the investee company was disposed of by the subsidiary. The purchaser of the disposed share of the investee company would provide indemnity to the subsidiary in respect of guarantees given by the subsidiary for and on behalf of the investee company after 31 December 1999. The total outstanding estimated amount of guarantees given by the subsidiary up to 31 December 1999 is approximately HK\$9.8 million as at 31 December 2002 (2001: HK\$13 million).
- (c) The Company has executed guarantees totalling HK\$1,053,400,000 (2001: HK\$1,074,400,000) with respect to banking facilities made available to its subsidiaries, of which HK\$843,000,000 were utilised as at 31 December 2002 (2001: HK\$874,000,000).

### 23 COMMITMENTS – GROUP

#### (a) Capital commitments

The Group had the following outstanding capital commitments in respect of investment properties and property held for development:

	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	10,153	9,986
Authorised but not contracted for	14,366	10,330
	<u>24,519</u>	<u>20,316</u>

#### (b) Commitments under operating lease

The Group had future aggregate minimum lease payments under a non-cancellable operating lease as follows:

	2002 HK\$'000	2001 HK\$'000
Not later than one year	<u>634</u>	<u>395</u>

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 24 FUTURE OPERATING LEASE RECEIVABLES

The Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2002 HK\$'000	2001 HK\$'000
Not later than one year	89,950	106,438
Later than one year and not later than five years	73,481	111,401
	<u>163,431</u>	<u>217,839</u>

### 25 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Note	2002 HK\$'000	2001 HK\$'000
Disposal of a subsidiary to a related company		—	256,860
Rental received from related companies		—	442
Building management fee received from a related company		—	680
Rental charges paid to related companies	(a), (b)	958	917
Administrative staff cost paid to a shareholder	(c)	494	443
Interest income on convertible note issued by an associated company (Note 13(b)(ii))		<u>2,289</u>	<u>—</u>

Notes:

- A subsidiary, Y. T. Group Management Limited ("YTGML"), entered into a sub-lease agreement with a subsidiary of Yugang International Limited ("Yugang") to lease office space from 27 October 2000, the monthly rental charge was HK\$73,857 plus applicable rates and expenses. The sub-lease agreement was terminated on 30 June 2002. Yugang is a beneficial substantial shareholder of the Company.
- YTGML entered into a sub-lease agreement with Chongqing Industrial Limited, a controlling shareholder of Yugang, to lease office space for a period of one year commencing on 18 October 2002 at HK\$66,392 per month plus applicable rates and expenses.
- YTGML entered into an agreement with Yugang to share the cost of common administrative staff at a monthly charge which is determined based on actual cost of the staff from time to time.

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 26 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2002 are as follows:

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid share capital	Interest held
Achiever Assets Limited	Hong Kong	Property development in Hong Kong	2 ordinary shares of HK\$1 each	100%
Asset Class Developments Limited	British Virgin Islands	Property trading in PRC	1 ordinary share of US\$1 each	100%
Best View Limited	British Virgin Islands	Property holding in Hong Kong	1 ordinary share of US\$1 each	100%
Benefit Plus Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
E-Tech Services Limited	Hong Kong	Property management in Hong Kong	2 ordinary shares of HK\$1 each	100%
Gold Region Developments Limited	British Virgin Islands	Property trading in PRC	1 ordinary share of US\$1 each	100%
Harson Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Honway Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Luckleen Development Limited	Hong Kong	Property trading in Hong Kong	100 ordinary shares of HK\$1 each	100%
Mainland Sun Ltd.	British Virgin Islands	Property investment in PRC	1 ordinary share of US\$1 each	100%
Pencester Properties Limited	British Virgin Islands	Property trading in PRC	1 ordinary share of US\$1 each	100%

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Y. T. Realty Group Limited

## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 26 PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation	Principal activities and place of operation	Issued and fully paid share capital	Interest held
Y. T. (China) Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of HK\$1 each	100%
Y. T. Finance Limited	Hong Kong	Finance vehicle in Hong Kong	6,000 ordinary shares of HK\$500 each	100%
Y. T. Group Management Limited	Hong Kong	Business management services in Hong Kong	2 ordinary shares of HK\$1 each	100%
Y. T. Investment Holdings Limited	British Virgin Islands	Investment holding in Asia	50,100 ordinary shares of US\$1 each	100%
Y. T. Investment Management Limited	British Virgin Islands	Securities investment in PRC	1 ordinary share of US\$1 each	100%
Y. T. Properties International Limited	British Virgin Islands	Investment holding in Hong Kong	201 ordinary shares of US\$1 each	100%
Y. T. Property Services Limited	Hong Kong	Property management in Hong Kong	100 ordinary shares of HK\$1 each	100%
Real China Investments Limited	British Virgin Islands	Property trading in PRC	1 ordinary share of US\$1 each	100%
Real Start Developments Limited	British Virgin Islands	Property trading in PRC	1 ordinary share of US\$1 each	100%
Rosy Star Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Score Goal Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Score Target Investment Limited	Hong Kong	Property trading in Hong Kong	2 ordinary shares of HK\$1 each	100%

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## NOTES TO THE ACCOUNTS

As at 31 December 2002

### 26 PRINCIPAL SUBSIDIARIES *(continued)*

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. With the exception of Y. T. Investment Holdings Limited, all the above companies are indirect subsidiaries of the Company.

### 27 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28 March 2003.